

## **FISCAL NOTE**

### **HB 2392 - SB 2457**

February 16, 2004

**SUMMARY OF BILL:** Requires all nursing homes with patients above the ground floor to have sprinkler systems installed by December 31, 2006. Requires nursing homes with patients only on the ground floor to have sprinklers systems installed by June 30, 2007. Any facility without a sprinkler system must install a smoke detector in each patient room by July 1, 2005. All nursing homes shall coordinate a fire drill with the local fire department at least once each year. Medicaid facilities that install sprinkler systems as a result of the bill may receive 100% reimbursement for depreciation over a five-year period. Facilities that installed systems prior to the effective date of the bill shall be reimbursed for 100% of full cost, less depreciation, over a five-year period.

#### **ESTIMATED FISCAL IMPACT:**

**Increase State Expenditures - \$319,700 FY05  
\$391,700 FY06 and FY07  
\$1,145,500 FY08**

**Increase State Revenues - \$44,500 FY05**

**Other Fiscal Impact - Increase Federal Expenditures -  
\$568,300 FY05  
\$696,320 FY06 and FY07  
\$2,036,400 FY08**

**For Information Purposes - FY05 costs represent the first year expense to TennCare of reimbursing depreciation in facilities with existing sprinkler systems over a five-year period. FY06 and FY07 expenses also include the cost of depreciation of the required smoke alarms. FY08 expenses include the first year reimbursement over a five-year period of facilities that install sprinklers before the 2007 deadline. Total impact to the state is \$17,909,000 (\$6,447,000 state and \$11,462,000 federal).**

Estimate assumes:

- The Department of Health will receive revenue in FY05 for review of plans for all nursing homes that will construct sprinkler systems.
- Reimbursement for nursing homes is based upon audited expenditures from the prior year. Reimbursement for nursing homes that currently have sprinkler systems will begin in FY05 and continue for five years.

- Medicaid reimbursement of depreciation (15 years) for all nursing homes that install fire alarm systems will begin in FY07.
- Medicaid reimbursement for all nursing homes that install sprinklers as the result of this bill will begin in FY08 based upon FY07 expenditures.
- The cost of installation of sprinkler systems is dependent on the type and size of the building and the current alarm system. Total cost also depends on the expense of hookup to a local water utility or to build a water storage system when local system pressure is inadequate.
- The bill will affect 83 nursing homes with approximately 2 million square feet of space. Estimated cost of installing a sprinkler system at each facility is approximately \$7 per square foot.
- TennCare reimbursement will pay approximately 72% of all costs representing the share of Medicaid reimbursement in all nursing homes.
- According to the Comptroller of the Treasury, federal Medicaid rules currently require that capital costs be amortized over a 25-year period for sprinkler systems and fifteen years for fire alarms. Such a change is subject to approval by the Center for Medicare and Medicaid Services to allow reimbursement over a five-year period for sprinkler systems as required in the bill.
- Currently, TennCare reimburses nursing homes subject to a maximum rate on facility expenditures. Approximately 50% of all nursing homes are above the cap and do not receive full reimbursement. TennCare will change the state plan to reimburse 100% of the capital costs required by this bill even for facilities above the cap. Such a change is subject to approval by the Center for Medicare and Medicaid Services. Any increase in the cap will increase both state and federal TennCare expenditures.
- If the Center for Medicare and Medicaid Services does not approve these changes to the state plan, then total cost of the reimbursement would be subject to state funding except for expenses currently approved for federal reimbursement based on 25-year amortization.

#### **CERTIFICATION:**

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.



James W. White, Executive Director